

Message Text

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46

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SSO-00 NSCE-00 USIE-00

INRE-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00

DODE-00 FEAE-00 FPC-01 H-03 INR-10 INT-08 L-03

NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 SAJ-01 NEA-14 DRC-01 PRS-01

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O 181656Z JUN 74

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 1120

INFO AMEMBASSY BONN IMMEDIATE

AMEMBASSY COPENHAGEN IMMEDIATE

AMEMBASSY DUBLIN IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AEMBASSY LUXEMBOURG IMMEDIATE 8177

AMEMBASSY OSLO IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AEMBASSY ROME IMMEDIATE 8600

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

USMISSION EC BRUSSELS IMMEDIATE UNN

USMISSION OECD PARIS IMMEDIATE

C O N F I D E N T I A L BRUSSELS 4269

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: ECG:USPROPOSALS FOR INTEGRATED ENERGY PROGRAM(IEP)

1.US REP ENDERS INITIATED ECG DISCUSSION OF IEP BY
PRESENTING U.S. VIEWS ON THE CONCEPT AND IMPORTANCE
OF SUCH SCHEME. FOLLOWING IS SUMMARY OF HIS OPENING
REMARKS.

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2. QUOTE. OUR POINT OF DEPARTURE IS AGREEMENT IN PRINCIPLE REACHED AT THE MAY ECG MEETING TO ESTABLISH AS INTEGRATED EMERGENCY PROGRAM. THE AD REFERENDUM UNITED STATES PAPER NOW BEFORE THE GROUP PRESENTS OUR PRELIMINARY THOUGHTS ON THE CONCRETE ELEMENTS THAT SHOULD BE INCLUDED IN AN EFFECTIVE ARRANGEMENT, AND I WOULD LIKE TO DISCUSS FOUR POINTS BEFORE WE BEGIN A DETAILED EXAMINATION OF THE PAPAER.

3. QUOTE. THE CONCEPT. THERE ARE BASICALLY TWO MODELS FOR HANDLING A EMERGENCY SUPPLY REDUCTION.WE CAN TAKE A LAISSEZ-FAIRE APPROACH AND LET PRICES IN THE MARKET ALLOCATE OIL. THIS SYSTEM WILL ALLOCATE THE OIL, BUT THE METHOD IS CHAOTIC AND THE CONSEQUENCES ARE TO MAXIMIZE STRAINS ON OUR FRIENDSHIPS AND TO ALLOW ONLY THE VERY RICH TO OBTAIN OIL. THIS IS NOT ACCEPTABLE.

4. QUOTE. THE BASIC CHOICE IS A MANAGED MODEL IN WHICH SUPPLY AND DEMAND LEVELS ARE ADJUSTED IN THE ECONOMIES OF THE MEMBER COUNTRIES. STOCKS AND STANDBY PRODUCTION ARE USED TO INCREASE AVAILABLE SUPPLIES. ON THE DEMAND SIDE WE SHOULD HAVE OPTIONS TO SET CONSUMPTION LEVELS THAT ARE EQUITABLE AND APPLY TO ALL. THE QUESTION OF OIL SHARING THEN FOLLOWS FROM THESE SUPPLY AND DEMAND ADJUSTMENTS--THE QUESTION THEN BECOMES ONE OF ONLY ADJUSTING OIL FLOWS,BOTH DOMESTIC AND IMPORTED.THUS, OIL ALLOCATIONS ARE DETERMINED BY COMMITMENTS TO RESTRAIN DEMAND AND UTILIZE STANDBY SUPPLIES.

5. QUOTE. AN INTERMEDIATE MODEL OF OIL SHARING ONLY IS CONCEIVABLE WITH NO PRIOR COMMITMENT ON DEMAND RESTRAINT AND USE OF STANDLY SUPPLIES. HOWEVER,THIS MODEL IS UNSTABLE BECAUSE DOMESTIC MARKET UNCONTROLLED MEANS THE BURDEN OF ADJUSTMENT FALLS ENTIRELY ON THIS SECTOR,WHICH IS PRECISELY WHAT WE WISH TO AVOID. THE RESULTING CHAOS WOULD CAUSE CUTTHROAT COMPETITION,BLACK MARKETS AND DESTABLILZING SHORTAGES. THEREFORE, OUR STRONG PREFERENCE IS FOR A GLOBAL APPROACH.

6. QUOTE:. MUTUAL CONFIDENCE.ADOPTING A GLOBAL APPROACH
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IS A MAJOR UNDERTAKING THAT IMPLIES FIRM COMMITMENTS BY ALL COUNTRIES. THERE ARE THREE ELEMENTS:

(A) THE TRIGGER.WE CAN'T DICTATE TO NATIONS EXACTLY HOW AND WHEN TO REACT, BUT WE DO WANT TO BUILD IN AS MUCH PRIOR AGREEMENT AS POSSIBLE SO THAT ACTIVATION OF THE TRIGGER IS CLEARLY PRIDICTABLE AND RELIABLE.

(B) IMPLEMENTATION MECHANISM. AN INTERNATIONAL MECHANISM IN WHICH WE HAVE CONFIDENCE IS NEEDED TO VERIFY, MAINTAIN AND IMPLEMENT AN ARRANGEMENT. THIS IS BEYOND THE PRESENT CAPABILITY OF OUR EXISTING INSTITUTIONS AND THUS NEW MECHANISMS ARE REQUIRED. THE U.S. PROPOSAL DOES NOT PREJUDGE WHERE AND HOW THIS IS ACCOMPLISHED.

(C) REDUCED LONG-TERM DEPENDENCE. UNLESS PROGRESS IS MADE TOWARD THIS GOAL, IT IS QUESTIONABLE WHETHER WE CAN SUSTAIN CONFIDENCE AND DISCIPLINE IS OUR COMMITMENTS. WE MUST CONSIDER ALTERNATIVE ENERGY SOURCES AND R&D, AS WELL AS THE INCENTIVE AND PROTECTION NEEDED TO INSURE THAT MAJOR FINANCIAL INVESTMENTS ARE MADE IN THESE AREAS.

(D) TIMING. WE WILL HAVE ACCOMPLISHED NOTHING IN THE ECG IF WE DON'T SOLVE THE PROBLEM OF HOW TO COPE WITH EMERGENCIES. THIS IS AN URGENT MATTER AND OUR PUBLICS ARE WAITING TO SEE WHAT WE WILL DO TO PROTECT THEM. FURTHERMORE, PROGRESS TOWARD PEACE IN THE MIDDLE EAST GIVES US NO CAUSE TO RELAX OUR EFFORTS HERE. ON THE CONTRARY, IT CREATES AN OPPORTUNITY WE MUST GRASP BECAUSE THERE IS LESS RISK OUR INITIATIVES WILL APPEAR TO BE CONFRONTATIONAL.

7. QUOTE. DO WE NEED INTERIM AGREEMENT? WE NEED CONTINUOUS PROTECTION, BUT OUR INDIVIDUAL NATIONAL EFFORTS TOWARD NEW LAWS, REGULATIONS AND BUDGETARY ARRANGEMENTS WILL TAKE TIME. THE MOST EFFECTIVE SOLUTION TO THIS PROBLEM IS NOT A SEPARATE INTERIM AGREEMENT, BUT AN OVERALL AGREEMENT IN WHICH COMMITMENTS ARE ESTABLISHED AND WHICH INCLUDES A MECHANISM TO ADJUST RIGHTS UNDER THE AGREEMENT FOR SHORTFALLS IN PERFORMANCE
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ON COMMITMENTS. UNDER THIS APPROACH AN OVERALL AGREEMENT SERVES AS A TEMPORARY ARRANGEMENT AS WELL.

8. QUOTE. CONCLUSION. THEREFORE, WE RECOMMEND THAT WE WORK FOR AGREEMENT ON:

(A) COMMON TARGETS FOR RESTRAINING DEMAND IN AN EMERGENCY;

(B) COMMON TARGETS FOR ESTABLISHING STANDBY SUPPLIES-- STOCKS, EMERGENCY PRODUCTION AND FUEL SWITCHING;

(C) ALLOCATING AVAILABLE SUPPLIES, DOMESTIC AND IMPORTED, ON THE BASIS OF NATIONAL COMMITMENTS TO RESTRAIN DEMAND AND BUILD STANDBY SUPPLIES;

(D) APREDICTABLE AND RELIABLE ACTIVATION MECHANISM.

(E) LONG-TERM COMMITTMNTS TO REDUCE OUR DEPENDENCE
ON IMPORTED OIL;

(F) PERMENANT MANAGEMENT MECHANISM FOR NORMAL AND
CRISIS PERIODS, WITHOUR PREJUDIC TO WHERE IT IS LOCATED
AND

(G) COMPLETING THIS PROGRAM BY JULY AND ACCELARATING
OUR WORK AS NECESSARY. UNQUOTE.FIRESTONE

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